


Claiborne Industries Limited
Consolidated Financial Statements
Year Ended September 30, 1979





Digitized by the Internet Archive
in 2023 with funding from
University of Alberta Library

https://archive.org/details/Clai0422_1979

AUDITORS' REPORT

To the Shareholders of
Claiborne Industries Limited

We have examined the consolidated balance sheet of Claiborne Industries Limited as at September 30, 1979 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The company is involved in the following legal proceedings the outcome of which cannot presently be determined.

- (a) As described in note 2(a), the realization of the unrecovered Advances to former shareholders and companies related to them of \$824,291 is dependent upon the outcome of a legal action or upon such further proceeds as are derived from the liquidation of the security on the Advances.
- (b) As described in note 2(b), Series B debentures which are stated to have matured April 1, 1979 are the subject of a legal action.
- (c) As described in note 2(c), a subsidiary's Series A debentures are the subject of a claim by their holders and counterclaim by the company.

In our opinion, subject to the effects, if any, on the financial statements of the ultimate resolution of the legal proceedings referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the company as at September 30, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
December 21, 1979

Thorne Riddell & Co.
Chartered Accountants

Claiborne Industries Limited

(Incorporated under the laws of Canada)

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1979

ASSETS		1979	1978
CURRENT ASSETS			
Accounts receivable, net of allowance for doubtful accounts of \$148,000; \$85,000 in 1978		\$1,890,027	\$1,513,417
Inventories, at the lower of cost and net realizable value		1,967,310	1,749,583
Prepaid expenses and deposits		11,106	6,476
Advances		—	379,879
		<u>3,868,443</u>	<u>3,649,355</u>
ADVANCES (note 2(a))		824,291	824,291
FIXED ASSETS (note 3)		445,518	440,703
OTHER ASSETS		1,356	2,406
		<u>\$5,139,608</u>	<u>\$4,916,755</u>
LIABILITIES			
CURRENT LIABILITIES			
Bank indebtedness (note 4)	\$	835,060	\$1,111,227
Accounts payable and accrued liabilities		1,116,929	1,201,853
Income taxes payable		124,700	—
Current portion of long term debt		34,255	87,477
		<u>2,110,944</u>	<u>2,400,557</u>
LONG TERM DEBT (note 5)		627,948	655,193
DEBENTURES — SUBJECT OF LEGAL ACTIONS (notes 2(b) and 2(c))			
Principal		585,000	585,000
Interest		39,187	—
		<u>624,187</u>	<u>585,000</u>
SHAREHOLDERS' EQUITY			
CAPITAL STOCK (note 7)			
Issued			
1,255,421 Class A shares		3,655,814	3,655,814
CONTRIBUTED SURPLUS		24,040	24,040
DEFICIT		(1,903,325)	(2,403,849)
		<u>1,776,529</u>	<u>1,276,005</u>
		<u>\$5,139,608</u>	<u>\$4,916,755</u>
Legal proceedings (note 2)			
Commitments (note 8)			

Approved by the Board

"J. M. Boyd", Director

"Joseph Roberts", Director

Claiborne Industries Limited

CONSOLIDATED STATEMENT OF INCOME

Year Ended September 30, 1979

	<u>1979</u>	<u>1978</u>
Sales	\$10,584,929	\$8,737,350
Cost of sales	<u>7,920,155</u>	<u>6,749,535</u>
Gross profit	<u>2,664,774</u>	<u>1,987,815</u>
Expenses		
Selling, administrative and general	1,697,946	1,493,211
Provision for doubtful accounts	93,009	62,209
Interest on long term debt	122,874	138,006
Other interest	104,313	115,334
Depreciation	<u>32,265</u>	<u>31,435</u>
	<u>2,050,407</u>	<u>1,840,195</u>
Income before income taxes and extraordinary item	614,367	147,620
Income taxes	<u>324,832</u>	<u>66,000</u>
Income before extraordinary item	289,535	81,620
Reduction of income taxes resulting from application of prior years' losses	<u>210,989</u>	<u>66,000</u>
NET INCOME	<u><u>\$ 500,524</u></u>	<u><u>\$ 147,620</u></u>
EARNINGS PER SHARE		
Income before extraordinary item23¢	.07¢
Net income40¢	.12¢

CONSOLIDATED STATEMENT OF DEFICIT

Year Ended September 30, 1979

	<u>1979</u>	<u>1978</u>
DEFICIT AT BEGINNING OF YEAR	\$2,403,849	\$2,551,469
Net income	<u>500,524</u>	<u>147,620</u>
DEFICIT AT END OF YEAR	<u><u>\$1,903,325</u></u>	<u><u>\$2,403,849</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended September 30, 1979

	<u>1979</u>	<u>1978</u>
WORKING CAPITAL DERIVED FROM		
Operations	\$ 533,839	\$ 180,106
Decrease in Advances	—	411,544
Interest on debentures — subject of legal action	<u>39,187</u>	<u>—</u>
	<u>573,026</u>	<u>591,650</u>
WORKING CAPITAL APPLIED TO		
Reduction in non-current portion of long term debt	27,245	87,477
Purchase of fixed assets	<u>37,080</u>	<u>24,687</u>
	<u>64,325</u>	<u>112,164</u>
INCREASE IN WORKING CAPITAL	508,701	479,486
WORKING CAPITAL AT BEGINNING OF YEAR	<u>1,248,798</u>	<u>769,312</u>
WORKING CAPITAL AT END OF YEAR	<u><u>\$1,757,499</u></u>	<u><u>\$1,248,798</u></u>

Claiborne Industries Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1979

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary, Rocamora Corporation Limited (Rocamora) and its subsidiary Braywood Corporation Limited (Braywood), each of which is wholly-owned.

(b) Fixed assets

Depreciation is provided on a straight-line basis using the following annual rates:

Building — 5%

Equipment — 10%

Automotive — 25% the first year and 20% thereafter

2. LEGAL PROCEEDINGS

(a) Advances

On January 16, 1978, the company commenced legal action against J. H. Black, J. E. Whiteside, B. Hill (herein referred to as "former shareholders") and companies related to them and against the Provincial Bank of Canada (now National Bank of Canada and herein referred to as "National Bank") and former employees of that bank in which the company seeks, amongst other things, recovery of:

(i) Advances in the principal amount of \$1,106,252 (being the amount of such Advances on January 16, 1978 before net recoveries from the liquidation of security for the Advances of \$281,961).

(ii) An interest component, being an amount equal to the interest charges incurred by the company with respect to monies borrowed to finance the Advances, or in the alternative, interest at 15% on the Advances.

(iii) Non-recurring corporate expenses incurred in connection with the Advances.

(iv) General and other damages.

The company on advice of legal counsel considers that the Advances as made constituted a fraudulent transfer of funds and that interest would not necessarily be recoverable as such but would be, potentially, a component of any damage award.

If the legal action is unsuccessful, the company's recovery of the Advances may be limited to realizations available from the following security, the status of which as at September 30, 1979 is summarized as follows:

(i) Chattel Mortgage on Livestock

Certain of the livestock, which are the subject of a chattel mortgage to the company, were disposed of by the National Bank which held other security interests in the livestock. The company realized \$495,000 in 1977 and \$31,665 in 1978 from these sales. The bank has undertaken to pay the company an additional \$67,335 from further sales but the company, on advice of legal counsel, has taken the position that it is entitled to all of the net proceeds from the sale of the subject livestock.

(ii) Marina Mortgages

The company held a \$300,000 mortgage of leasehold on a marina property, which was sold under direction of the Supreme Court of Ontario and the net proceeds of approximately \$450,000 are currently held under the control of the court for distribution to the creditors of the marina. The company anticipates realization of a substantial portion, if not all, of its claim.

(b) Series B debentures — subject of legal action (\$550,000)

The company has outstanding 9½% Series B debentures which are stated to have matured April 1, 1979, and to be secured by a first floating charge on the assets of the company. The principal amount of debentures outstanding is \$795,000 of which \$245,000 are held by subsidiaries of the company. Interest on these debentures has been accrued in the accounts but not paid pending resolution of a legal action instituted by the company on February 5, 1979.

In this action, the company claims against the holders of the outstanding debentures, the National Bank and others for, amongst other things, a declaration that the debentures are fraudulent and void, an Order directing the holders to deliver up the debentures for cancellation and to repay all monies paid by way of interest. The company is alleging in the action that the debentures were issued as part of a fraudulent scheme to raise monies for the benefit of former shareholders and companies related to them and, indirectly for the benefit of the National Bank.

(c) Rocamora — Series A debentures (\$35,000)

Rocamora has not accrued nor paid interest on an aggregate principal amount of \$145,000 outstanding Series A debentures. The holders of these \$145,000 debentures commenced a legal action against Rocamora seeking payment of the principal amount of the debentures, interest and costs and, as well, claiming possession of the assets of Rocamora. Rocamora counterclaimed for a declaration that these debentures are fraudulent and void and subsequently the debenture holders discontinued the action with respect to \$60,000 of the debentures. Rocamora, on advice of legal counsel, believes that its counterclaim will be successful in respect of the remaining \$85,000. The company has, in its accounts, cancelled \$110,000 of such debentures by setting off the amount thereof against assets received by the company allegedly as consideration for the issuance of the debentures.

3. FIXED ASSETS

	1979			1978
	Cost	Accumulated depreciation	Net	Net
Land	\$150,796		\$150,796	\$150,796
Building	529,264	\$295,913	233,351	251,937
Equipment	107,568	97,034	10,534	8,111
Automotive	85,741	34,904	50,837	29,859
	<u>\$873,369</u>	<u>\$427,851</u>	<u>\$445,518</u>	<u>\$440,703</u>

4. BANK INDEBTEDNESS

	1979	1978
Cheques issued in excess of amounts on deposit	\$ 47,879	\$ 49,046
Demand bank loans	<u>787,181</u>	<u>1,062,181</u>
	<u>\$835,060</u>	<u>\$1,111,227</u>

A demand bank loan of \$685,000 is secured by a general security agreement under The Personal Property Security Act, an assignment under section 88 of the Bank Act, a collateral mortgage on the company's building and a floating charge debenture of \$1,500,000 on all the assets of the company. This security also covers a guarantee provided by the National Bank in the amount of \$500,000 to a major supplier.

Braywood's demand loan in the amount of \$102,181 is collaterally secured by a Series B debenture of the company of \$135,000 (one of the debentures referred to in note 2(b)).

5. LONG TERM DEBT

	1979	1978
11 ¹ / ₄ % Mortgage, due April 1, 1984 amortized over twenty years	\$472,203	
10 ¹ / ₂ % Mortgage, due June 1, 1980 amortized over twenty-five years		\$329,517
15% Mortgage, due November 1, 1978 amortized over twenty-five years		145,541
Finance contracts		2,612
Series A debentures of Rocamora, 11%, maturing January 13, 1981, secured by a first floating charge* on all assets of the subsidiary (see (i) and (ii) below)	<u>190,000</u>	<u>265,000</u>
	662,203	742,670
Included in current liabilities	<u>34,255</u>	<u>87,477</u>
	<u>\$627,948</u>	<u>\$655,193</u>

*Subject to prior charge securing bank indebtedness.

- (i) A further \$145,000 of these debentures are the subject of legal proceedings (see note 2(c)).
- (ii) Agreement was reached during the year in respect of a possible dispute relating to \$225,000 of outstanding debentures; \$75,000 thereof were retired during the year and, effective January 1980, the company will repurchase \$3,000 per month of the subject debentures. As well, the company has committed a portion of the realization of further amounts on the security for the Advances to the repurchase of the debentures.

Principal payments on long term debt for each of the four years subsequent to September 30, 1980 are as follows:

1981	\$171,094
1982	9,030
1983	10,075
1984	437,749
	<u>\$627,948</u>

6. INCOME TAXES

At September 30, 1979, the companies had available an excess of \$82,000 of undepreciated capital cost over the net book value of the related fixed assets, the tax effect of which has not been recorded in the accounts.

7. CAPITAL STOCK

The company has been continued under the Canada Business Corporations Act and there is no limitation on the number of shares that may be issued. The Class A shares are convertible into Class B shares (non-voting) on a one for one basis provided that no more than 90% of the shares issued and outstanding shall be so converted into Class B shares.

8. COMMITMENTS

- (a) The company has leased computer equipment for a five year period at \$20,000 per annum.
- (b) The company has entered into a consulting agreement with its former general manager providing for payment of \$40,000 in calendar year 1980 and \$18,000 per annum in each of 1981 through 1985.

9. OTHER INFORMATION

- (i) Remuneration of directors and senior officers, (which under the Ontario Securities Act includes all directors and the five highest paid employees of which two are directors) was as follows:

	<u>1979</u>	<u>1978</u>
Directors and senior officers	<u>\$198,000</u>	<u>\$186,000</u>

- (ii) Legal fees of \$103,590 and accounting fees of \$32,260 were incurred in 1979 for professional services provided by firms of an officer and director, respectively.